

## Message Text

SECRET

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W  
-----123964 211132Z /15  
O 211045Z AUG 77  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC IMMEDIATE 8544

S E C R E T SECTION 1 OF 2 CAIRO 13860

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FOR THE SECRETARY FROM AMBASSADOR

E.O. 11652: GDS  
TAGS: ETRD, EG, UR, CZ  
SUBJECT: MEETING WITH SADAT

SUMMARY: SADAT RECOUNTS HIS CURRENT CONTRETEMPS WITH SOVIET, WHICH PROMPTED HIM STOP EXPORT OF THIRTY THOUSAND TONS OF LONG-STAPLE EGYPTIAN COTTON TO USSR AND A SMALLER AMOUNT TO CZECHOSLOVAKIA. HE EXPECTS SOVIETS WILL RETALIATE BY CURTAILING THEIR RAW MATERIAL AND INTERMEDIATE GOODS TRANSFERS TO EGYPT UNDER BILATERAL ARRANGEMENT. HE IS, NEVERTHELESS, DETERMINED PROCEED AND SPEAKS OF WANTING TO RID HIMSELF OF ANY DEPENDENCE ON SOVIETS AND EASTERN BLOC. HE WISHES ALERT PRESIDENT CARTER TO NEED FOR POSSIBLE HELP IN (A) FINDING WESTERN HARD CURRENCY MARKETS FOR THE THIRTY THOUSAND TONS OF EGYPTIAN COTTON WHICH WOULD NORMALLY HAVE GONE TO USSR; (B) FINDING ALTERNATIVE SOURCE(S) FOR RAW MATERIALS (ESPECIALLY COKING COAL) AND INTERMEDIATE GOODS NORMALLY OBTAINED FROM USSR AND EASTERN BLOC; (C) ENCOURAGING JAPANESE AND/OR ITALIANS TAKE OVER TECHNICAL ASSISTANCE FUNCTIONS NOW BEING RENDERED BY SOVIET ADVISERS AT HELWAN STEEL PLANT AND ALEXANDRIA SHIPYARD. I TOLD SADAT DECISION RE SOVIETS IN ONE WHICH ONLY HE CAN TAKE,

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BUT MATTER WOULD SEEM TO BE ONE REQUIRING CAREFUL STUDY BEFORE ANY IRREVOCABLE ACTION IS TAKEN. NOTED US IS ALSO COTTON PRODUCER AND EXPORTER, WHICH MAY MAKE IT DIFFICULT TO HELP ON COTTON ISSUE. WE WOULD, OF COURSE, WANT TO STUDY RAW MATERIALS/INTERMEDIATE GOODS REQUIREMENTS LIST, ONCE AVAILABLE, IN ORDER DETERMINE HOW WE MIGHT HELP. SADAT'S CONCEPT SEEMS TO BE TO UTILIZE HARD CURRENCY

EARNINGS FOR EGYPTIAN COTTON DIVERTED TO EUROPEAN MARKETS IN ORDER TO PURCHASE NEEDED RAW MATERIALS AND INTER-MEDIATE GOODS. NO IMMEDIATE ACTION REQUIRED, SINCE SADAT SAID HE WISHED MERELY TO ALERT US TO POSSIBLE PROBLEM. HOWEVER, WE MAY EXPECT HEAR MORE ABOUT MATTER. END SUMMARY.

1. MET WITH SADAT EARLY AFTERNOON AUGUST 20, IN ALEXANDRIA. WITH HIM WAS VP MUBARAK. THEY HAD JUST COME FROM WELCOMING VISITING SUDANESE PRESIDENT NUMAYRI.

2. SADAT EXPLAINED THAT HE HAD ASKED ME TO COME TO ALEXANDRIA IN ORDER TO ALERT (HE CALLED IT "EARLY WARNING") PRESIDENT CARTER TO SOME LIKELY DEVELOPMENTS WHICH MIGHT REQUIRE OUR ASSISTANCE. BY WAY OF INTRODUCTION HE GAVE A LONG ACCOUNT OF HIS CURRENT CONTRETEMPS WITH THE SOVIETS. SOVIETS, HE RECALLED, NORMALLY TAKE 30,000 TONS OF LONG-STAPLE COTTON EACH YEAR. EGYPT IMPORTS FROM USSR CONSIST MAINLY OF VARIOUS RAW MATERIALS AND INTERMEDIATE GOODS. BALANCE OF TRADE HAS REGULARLY BEEN IN SOVIET FAVOR AND HAS REPRESENTED PAYMENT IN KIND FOR EGYPTIAN COMMERCIAL DEBT.

3. "FEW YEARS" AGO GOE ORDERED 220 TANKS FROM CZECHOSLOVAKIA, PAYING FOR THESE IN INSTALLMENTS OF HARD CURRENCY. ENTIRE COST HAD BEEN PAID. TANKS SHOULD HAVE BEEN DELIVERED YEAR AND HALF AGO. WHEN THEY WERE NOT,  
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GOE GOT IN TOUCH WITH CZECH GOVT, WHICH INDICATED SOVIETS HAD ORDERED IT NOT TO PROVIDE TANKS. CZECHS SUGGESTED GOE TALK TO SOVIETS ABOUT MATTER. FAHMY THEREUPON RAISED SUBJECT WITH GROMYKO IN MOSCOW, BUT SOVIET FONMIN DISCLAIMED ANY KNOWLEDGE. HE, SADAT, HAD THEN WARNED CZECHS THAT ACTION WOULD BE TAKEN AGAINST THEM IF TANKS NOT DELIVERED. IN FACE OF WARNING, CZECHS HAD PROVIDED THIRTY TANKS, BUT INSISTED THAT NO FURTHER TANK DELIVERIES POSSIBLE UNTIL NEXT YEAR. CZECH ACTION, SADAT IS CONVINCED, IS DUE TO SOVIET PRESSURE. HE, SADAT, IS NOT PREPARED TO ACCEPT THIS. HENCE, HE HAD ORDERED THAT ALL COTTON EXPORTS TO SOVIET UNION AND TO CZECHOSLOVAKIA BE STOPPED.

4. IMPACT OF THIS ACTION WAS MORE THAN HE EXPECTED. SOVIETS KNOWN TO BE UPSET. TWO DAYS AGO SOVIET EMBASSY COMMERCIAL ATTACHE GAVE MINSUPPLY A MEMORANDUM CAUTIONING THAT IF COTTON EXPORTS ARE INDEED STOPPED, SITUATION WILL BE DANGEROUS. SADAT DETERMINED NOT TO BOW TO SOVIET PRESSURE, BUT BELIEVES SOVIETS AND BLOC COUNTRIES WILL ESCALATE SITUATION BY CURTAILING THEIR EXPORTS TO EGYPT.

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S E C R E T FINAL SECTION OF 2 CAIRO 13860

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FOR THE SECRETARY FROM AMBASSADOR

5. THE PRESIDENT SAID HE HAD MADE A DECISION THAT EGYPT  
MUST GET RID OF REMAINING SOVIET ADVISORS. IT COULD NOT AFFORD  
TO REMAIN DEPENDENT UPON SOVIETS IN ANY WAY. SADAT WANTED  
PRESIDENT CARTER TO KNOW THIS AND WISHED TO ALERT HIM TO THE  
POSSIBLE NEED FOR ASSISTANCE IN THREE AREAS IN THE  
EVENT THE SOVIETS RETALIATE:

(A) FIRST, GOE INTENDS TO SELL THE 30,000 TONS  
OF LONG-STAPLE COTTON IN WESTERN HARD CURRENCY MARKETS.  
HE WONDERED IF USG MIGHT BE ABLE TO HELP IN THIS REGARD.

(B) IN EXPECTATION THAT SOVIETS AND EASTERN BLOC  
COUNTRIES WILL CURTAIL RAW MATERIAL DELIVERIES, GOE  
MUST PLAN TO OBTAIN NEEDED RAW MATERIALS ELSEWHERE. THERE  
WOULD PROBABLY ALSO BE OTHER RAW MATERIALS NOW OBTAINED FROM  
SOVIETS AND EASTERN BLOC, HIGH LEVEL COMMISSION, HEADED  
BY THE VP, IS STUDYING THE MATTER TO DETERMINE REQUIREMENTS.  
EITHER THE VP OR THE PRIMIN WOULD LET ME KNOW RESULTS OF THAT  
STUDY. HE HOPED WE MIGHT BE ABLE TO HELP FIND ALTERNATIVE  
SOURCES OF RAW MATERIALS AND INTERMEDIATE GOODS. COKING COAL  
ESPECIALLY IMPORTANT. GOE NOW GETTING MOST OF ITS COKING COAL  
FROM POLAND.

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(C) AS PART OF HIS DECISION, SADAT SAID, HE HAD ORDERED VP MUBARAK ALSO TO GET RID OF REMAINING SOVIETS ADVISORS IN HELWAN STEEL MILL AND ALEXANDRIA SHIPYARD. HE WILL ASK JAPANESE OR, IF THEY ARE NOT INTERESTED, ITALIANS TO TAKE OVER TECHNICAL ADVISORY FUNCTIONS AT THESE FACILITIES. HE WONDERED IF WE MIGHT BE ABLE TO HELP IN URGING JAPANESE AND/OR ITALIANS TO BE WILLING TO ASSIST GOE IN THIS MATTER.

6. I TOLD SADAT THAT I WOULD REPORT HIS REQUEST. AS I UNDERSTOOD IT, HE WAS AT THIS TIME SIMPLY ALERTING US TO THE POSSIBILITY THAT SOME HELP MIGHT BE NEEDED. DECISION WITH RESPECT TO THE SOVIETS WAS ONE WHICH ONLY HE COULD TAKE, BUT IT SEEMED TO ME THAT MATTER SHOULD BE CAREFULLY WEIGHED AND STUDIED BEFORE ANY DEFINITIVE ACTIONS ARE TAKEN. FOR EXAMPLE, HAD ANY EFFORT BEEN MADE TO LOOK INTO THE WESTERN COTTON MARKET? AS A MAJOR COTTON GROWER AND EXPORTER, CHANCES OF EGYPTIAN COTTON BEING DIVERTED TO US MARKET DID NOT STRIKE ME AS GOOD. SADAT SAID HE UNDERSTOOD US SITUATION AND SUGGESTED COTTON COULD GO TO WESTERN EUROPE AND JAPAN. COULD WE PERHAPS PROVIDE SOME LEADS AS TO COUNTRIES WHERE ADDITIONAL QUANTITIES OF LONG-STAPLE COTTON MIGHT BE NEEDED?

7. RE RAW MATERIALS, I COULD MAKE NO COMMITMENT BUT HE COULD BE SURE THAT WE WOULD TRY TO BE AS HELPFUL AS CIRCUMSTANCES PERMIT. I WOULD AWAIT LIST THAT VP AND HIS COMMITTEE ARE DEVELOPING, AFTER WHICH INTERESTED USG AGENCIES COULD STUDY MATTER AND COULD OFFER SUCH COUNSEL AS MIGHT BE APPROPRIATE. AS HE PERHAPS KNEW, WE ARE ALREADY PROVIDING SOME COKING COAL UNDER CIP.

8. RE HELWAN STEEL PLAN AND ALEXANDRIA SHIPYARD, I SUGGESTED THAT GOE SHOULD IN FIRST INSTANCE ASK JAPANESE AND/OR ITALIANS DIRECTLY IF THEY MIGHT BE  
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WILLING AND ABLE TO ASSIST. PERHAPS, IF IT SUBSEQUENTLY SEEMED DESIRABLE OR NECESSARY, WE COULD SUPPORT EGYPTIAN REQUESTS AS WE HAD DONE IN SIMILAR SITUATIONS IN THE PAST. ULTIMATE DECISION WILL CLEARLY HAVE TO BE MADE BY JAPANESE AND/OR ITALIANS. SADAT AGREED THIS IS BEST WAY TO PROCEED AND GAVE ORDERS THAT PRIMIN IS TO CALL IN JAPANESE AMBASSADOR AND RAISE MATTER WITH HIM.

9. COMMENT: AS OF NOW, SADAT'S "REQUEST" IS NO MORE THAN AN ALERT THAT HE MAY NEED OUR ASSISTANCE IF HIS CURRENT CONTROVERSY WITH THE SOVIETS RESULTS IN EFFECTIVE CURTAILMENT OF SOVIET AND EASTERN BLOC BILATERAL TRADE AGREEMENT. HE WAS GREATLY EXERCISED ABOUT THE AFFAIR, AS AGITATED AS I HAVE SEEN HIM, AND SEVERAL TIMES POUNDED

THE TABLE TO EMPHASIZE HIS POINTS. AT TIMES VP MUBARAK HAD DIFFICULTY CALMING HIM. SADAT, AGAINST THE ADVICE OF SOME OF HIS COUNSELORS, SEEMS DETERMINED TO TRY TO CUT HIS REMAINING ECONOMIC LINKS WITH THE SOVIET UNION, COME WHAT MAY. UNFORTUNATELY FOR HIM, AS THINGS NOW STAND, HE NEEDS THE SOVIETS AND EASTERN BLOC MARKET IN ORDER TO DISPOSE OF GENERALLY LOW QUALITY EGYPTIA MANUFACTURES, WHICH HE CANNOT SELL ELSEWHERE, AND AS A SOURCE FOR CERTAIN RAW MATERIALS. HE CONCEPT SEEMS TO BE TO TRY TO FIND A MARKET FOR THE ADDITIONAL 30,000 TONS OF LONG-STAPLE COTTON IN WESTERN EUROPE AND JAPAN AND TO USE THE HARD CURRENCY PROCEEDS TO BUY HIS RAW MATERIALS NEEDS (INCLUDING COKING COAL) FROM WESTERN EUROPE AND/OR THE UNITED STATES. AS QAYSUNI HAD EARLIER INDICATED TO ME (CAIRO 13662), EGYPTIANS MAY ALSOASK FOR MORE CIP ASSISTANCE TO MEET THEIR RAW MATERIAL AND INTERMEDIATE OODS REQUIREMENTS IF SOVIETS AND EAST EUROPEANS CURTAIL THEIR EXPORTS TO EGYPT. WE WILL DOUBTLESS HEAR MORE ABOUT THIS MATTER.

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## Message Attributes

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